TESTIMONY OF SECRETARY OF COMMERCE
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Before the Banking, Housing and Urban Affairs Committee
United States Senate
October 24, 1997

Mr. Chairman, and distinguished members of the Committee, I am proud to be here today -- as Chairman of the Trade Promotion Coordinating Committee -- to present to you the fifth annual Report on the status of our National Export Strategy. This report summarizes the steps that the TPCC agencies have taken over the last year to implement our trade promotion agenda, and sets out a ten-point plan to ensure that we use every tool at our disposal in the most coordinated, strategic way so that U.S. workers and businesses are able to profit from export opportunities in markets throughout the world.

It is the product of an intensive effort by staff, deputies and principals from 20 Federal agencies, working every day on behalf of America's exporters. Indeed, this effort is the product of virtually a new TPCC team. Along with Jim Harmon, Chairman of the Export-Import Bank who is accompanying me today, the TPCC has also recently welcomed to our ranks Aida Alvarez at SBA and George Munoz of OPIC. Let me assure you that all of us are fully committed to the mission that Congress -- in particular this Committee -- outlined for us when the TPCC was first created: to guarantee that the Federal government is doing all that it can to help U.S. companies, especially small and medium-sized firms, take advantage of the opportunities the global marketplace affords.

Mr. Chairman, it is no secret that the world economy is growing faster than our own -- and the most dynamic economies offering the greatest opportunities are in the emerging regions such as Latin America, Asia, the Middle East, Africa, Central and Southern Europe and the New Independent States of the former Soviet Union. Middle and lower-income countries (those outside the Organization for Economic Cooperation and Development (OECD)) have accounted for 80 percent of our rapid export growth over the past eight years -- despite trade barriers that remain high. The Asian economies are expected to grow by six to seven percent annually for the next 15 years; Latin America and the Caribbean will eclipse Europe as the top destination for U.S. exports by 2000, and we have barely tapped into the emerging markets of Africa.

To maintain our standard of living, we must continue to work for greater access to foreign markets. That is why the President has stated that our highest trade priority this fall is obtaining fast track negotiating authority to negotiate trade agreements that knock down barriers for American businesses in key markets and in our most competitive sectors. Without fast track, our trading partners will not negotiate comprehensive agreements with us -- and our competitors will reap the benefits.

Take Latin America for example. The 33 countries that would join us in creating the Free Trade Area of the Americas by 2005 are underpinning our export growth this year -- accounting for nearly two thirds of our export gains in dollar terms -- but our competitors are working overtime to change that. Take Chile. When the U.S. was unable to secure fast-track authority in 1995, Chile broke off discussions with the United States. But Chile did go on to negotiate trade agreements with the four countries of MERCOSUR (Brazil, Argentina, Paraguay and Uruguay). They are in the process of upgrading their agreement with Mexico, and they implemented a free trade deal with Canada just this past July. As a result, U.S. exporters face a Chilean duty of 11 percent on virtually every single product they sell, while their competitors from these countries do not.

Fast track will give us the ability to strengthen our economy and to create more jobs. That is why it is the Administration's highest priority. An aggressive National Export Strategy enables our firms and workers to take advantage of our market-opening efforts. Together, these two components of our trade agenda will help continue the strong economic performance we have worked so hard to foster over the past several years and ensure that American firms and workers can successfully compete and win in the markets of the future.

U.S. Exports Are on the Rise, but Our Competitive Position Is Eroding in Some Emerging Markets

Ensuring open markets is the first step. Our trade promotion and financing tools are also critical in the battle to help American companies win market share in emerging economies. In these regions, even where tariff barriers are high, other nations are doing more and some foreign companies are doing better than U.S. firms. We estimate that U.S. companies will compete for one to two trillion dollars worth of major projects in these markets over the next ten years with competition becoming increasingly fierce. Furthermore, we expect foreign governments will be increasingly engaged in helping their domestic firms compete for these deals. Success in these markets over the long term will depend largely on the ability of companies to be first to win important contracts.

And will U.S. firms be among those winning tomorrow? Current statistics indicate that indeed, the U.S. is the world's most competitive exporter. Last year, U.S. exports reached a record $849 billion[(1)], and we expect that if we sustain the export growth achieved so far this year, we will by the year 2000 surpass the $1.2 trillion dollar goal the TPCC set in 1993. Also, the numbers of American firms exporting has grown to more than 112,000 in 1992 (the most recent year for which we have figures). This number reflects a 60 percent growth rate between 1987 and 1992.

What these statistics do not show is that we have seen U.S. market share eroding in some key emerging markets. Although overall U.S. market share of imports into the BEMs has grown from 17.8 percent in 1990 to 18.5 percent in 1996, our progress has varied across markets. Shares of U.S. imports into the Latin American BEMs (Mexico, Argentina and Brazil) have increased, while our position vis a vis our competitors in the Chinese Economic Area, India, South Korea, South Africa and Turkey has eroded. This is another indication that our competitors continue to dedicate more resources to gaining footholds in these important markets.

We cannot for one minute rest on our laurels. Clearly, it is how we organize ourselves today, how we target our scarce resources, and how we coordinate our efforts with tomorrow in mind, that will determine our competitive position in the future. And that is why the TPCC has never been more important to our nation's commercial strategy.

The National Export Strategy: Producing Results for America

The past year was an important turning point for the TPCC. This year, two of our key agencies -- OPIC and Ex-Im Bank -- faced difficult reauthorizations as they strove to educate the public on the significance of their programs to American firms and workers. The TPCC is playing a key role in this effort. I appreciate the support of this Committee in the reauthorization of Ex-Im Bank. I urge the Congress to support the full funding and authorizations for Ex-Im Bank, OPIC and TDA. These agencies are integral components of our National Export Strategy, and are essential to meet the competition our firms face. For example, compared to the U.S., Japanese export credit support is twelve times larger. The Japanese feasibility study budget is five times that of our TDA and the U.S. ranks fifth in the percentage of GDP dedicated to OPIC-type political risk insurance. To meet this competition, it is clear that we must take the TPCC to the next level of interagency coordination and strategic planning if we are to provide the necessary support our companies need to succeed in the global economy of the next millennium. This means using our combined experiences and capacities to enter markets earlier, with greater strength and intensity.

Status of the National Export Strategy -- 1997

Mr. Chairman, our progress has been steady and sure. The TPCC began in 1993 with 65 recommendations to leverage agency resources and remove government-imposed obstacles to exporting. In 1994, we worked hard to implement those initial recommendations and we established some new directions -- like our focus on the Big Emerging Markets. In 1995, in addition to focusing on advocacy and small business trade finance, we documented the practices other governments undertake to win the major projects that will ensure future global market presence and domestic economic growth. Last year, we began to develop strategic policies that would directly address foreign competitive practices in the areas of bribery, standards, technical assistance and defense offsets.

On a number of these fronts, we can point to some significant milestones:

We have completed our nationwide network of Export Assistance Centers. To ensure that U.S. Government export assistance programs are more accessible to small and medium-sized firms, we established 19 central Export Assistance Centers in larger cities and connected them to 81 local EACs nationwide to create a "hub and spoke" network. These offices integrate the export marketing know-how of the Department of Commerce with the trade finance expertise of the Small Business Administration (SBA) and Export-Import Bank. Our EACs are one of the best examples of how increased coordination can result in improved services for all types of U.S. exporters.

Through aggressive enforcement and implementation of OECD rules, we have succeeded in reducing tied aid offers from as much as $10 billion annually in 1991-1992 to an average of $4-7 billion between 1993 -1996. Of equal importance is that the remaining tied aid is primarily used for bona fide small-scale rural aid projects. As a result, we estimate that U.S. capital goods exports will be higher by $1 billion annually at a budget savings of approximately $300 million, because U.S. exporters can now compete fairly for projects no longer eligible for tied aid.

As part of our strategy on untied aid, we have notified U.S. companies of about $16 billion worth of Japanese Overseas Economic Cooperation Fund projects and have broadened our strategy to include the Philippines, Thailand and Vietnam, along with our initial focus on China, India, Indonesia and Japan. Our objective is to give U.S. exporters the information they need to be as competitive as possible when bidding on untied aid projects. We strive to supply information that places the U.S. Government in a better position to engage in earlier and more effective advocacy efforts on behalf of U.S. firms, and to monitor bid awards in order to verify the extent to which Japan's aid program is truly untied.

- ***Our Advocacy Center at the Department of Commerce has helped U.S. companies win overseas contracts worth over $55 billion in U.S. exports over the life of the contracts.*** We have also integrated our Advocacy Center, Ex-Im Bank and the Department of Energy databases so that these agencies have access to information regarding the Center's pending projects. The Departments of State, Transportation, TDA, OPIC and AID will soon follow suit.

We continue to work to reduce government-imposed obstacles to exporting. The United States has made progress with the 1993 TPCC mandate to transfer items from the U.S. Munition List, administered by the State Department, to the Commerce Control List. On October 21, 1996, the Administration transferred jurisdiction on certain commercial communications satellites and certain hot section technology for the development and production of commercial aircraft engines.

In terms of our commercial policy efforts, I want to highlight two critical successes that will have a long-term impact on the overall competitiveness of American firms.

We continue to make progress combating bribery and corruption. Corruption remains a major obstacle to trade. We estimate that American firms lost at least 50 contracts over the past year -- valued at more than $15 billion -- due to bribery and corruption. A total of $80 billion in commercial contracts have been affected by bribery since mid-1994. Over the past year, through the OECD's Working Group on Bribery, agreement was reached by Ministers this past May to open negotiations promptly on an international convention to criminalize bribery**.** The convention is to be open for signature by the end of 1997, with a view to its entry-into-force 12 months later. The council also approved a recommendation that member countries should submit a criminalization proposal to their national legislatures, based on the common standard, by April 1, 1998, and to seek their enactment by the end of 1998.

On the separate issue of the tax deductibility of bribes, individual OECD countries have made only limited progress. Of the dozen or so OECD members which permit tax deductibility, Norway has already eliminated the practice and Belgium, the Netherlands, Switzerland, Denmark, and Australia have measures pending in their legislatures to eliminate such tax deductions. In contrast, Germany, France, and Austria have indicated they will not take such action until the issue of criminalization is resolved.

We successfully negotiated a Mutual Recognition Agreement on standards with the EU which will affect $50 billion in two-way trade in 6 industry sectors. When fully implemented, the agreements will recognize the results of product testing or certification requirements set by both governments. It will eliminate the need for duplicative testing, inspection or certification requirements for products on each side of the Atlantic. These agreements are expected to increase U.S. exports by saving manufacturers more than $1 billion in costs annually, equivalent to a two or three point reduction in tariffs.

This Year's Report -- A Focus On Strategic Coordination

The TPCC agencies work every day to implement the strategies we outline each year. This year's Report summarizes our accomplishments to date, but it also lays out a specific trade promotion agenda for the second Clinton Administration. Like our competitor nations, we set long-term strategic goals which will serve as focal points for agency coordination. Our overarching goal is to provide a "seamless web" of government services to support our exporters at every phase of the contract and transactional process, in a more targeted, strategic way. Having laid a strong operational foundation over the past five years, this year the TPCC has laid the groundwork to address the more difficult structural issues to become a strategic tool for U.S. policy makers that identifies our commercial policy priorities and provides the framework within which resources can be directed to support these priorities.

To do this, we first took a hard look at how the TPCC itself is organized. Our goals were to make better use of our resources, encourage a more integrated approach to our most significant commercial policy problems, provide a vehicle for long-term thinking on potential solutions and to increase the likelihood of success in solving the problems we identify. In addition to implementing our commercial strategies through our functional groups in the areas of bribery, standards, small business and offsets, we launched six interagency regional working groups to develop strategies to address the most important commercial policy barriers in each region. These regions are Asia (chaired by Ex-Im Bank), Latin America (chaired by the Department of Commerce), Central and Southern Europe (chaired by the Department of State), the Middle East and Northern Africa (chaired by the Department of State), Africa (co-chaired by OPIC and the Department of Commerce) and the NIS (chaired by the Department of Commerce).

These interagency working groups capture the expertise of all TPCC agencies. This structure builds upon our Big Emerging Markets initiative, allowing us to strengthen the resources each TPCC agency can focus on these key markets. It will also provide the perspective necessary to develop regionally-specific solutions to cross-cutting issues like bribery and standards, and allow for greater coordination on advocacy, even for critical transborder projects. A regional focus also enables us to better target our resources on those priority sectors within each region where U.S. products and services are most needed to counter foreign government practices. Our goal is to use these groups to take our trade promotion and finance efforts one step further, enabling a long-term, proactive cohesive effort which, like our competitors, brings to bear all relevant resources of our government to provide a comprehensive package of services that is highly effective in major project competitions.

Our Ten-Point Strategic Agenda

These regional working groups produced a number of recommendations which will guide our work throughout the year. We have taken the most important proposals that have emerged from these groups, along with key recommendations from the functional groups, to develop our strategic plan for 1997. We asked each of the working groups to first analyze U.S. export performance in each of the six critical regions; identify the three or four most pernicious commercial barriers for U.S. exporter in each region; and then develop strategies to address them. As our work continued it became evident that a number of overarching themes were emerging. These issues form the core of our action plan which will set our agenda for the coming year.

Mr. Chairman, although the Report addresses each of our ten recommendations in detail, I would like to briefly summarize them here.

The Unified Budget

First, I believe that consistent with our congressional mandate, the TPCC must play a role in the budget process to ensure that our budget priorities are fully aligned with our commercial policy goals. Beginning this year, the TPCC will review agency strategic plans and make recommendations to OMB regarding which agency programs are most effective and consistent with the policy goals articulated in the National Export Strategy, as well as noting duplication between agencies and instances calling for greater focus within agencies. We will work closely with Congress -- and this Committee in particular -- to ensure that future TPCC annual reports will be timed to better coincide with the budget process.

Enhance our Technical Assistance Efforts

There is a broad and widely-accepted perception supported by some anecdotal evidence, that technical assistance programs funded by competitor nations can provide advantages to their domestic firms competing for large infrastructure contracts in emerging market economies. Through our regional working groups, the TPCC will explore ways in which to use technical assistance to facilitate implementation of trade agreements by the emerging economies; undertake analysis to identify sectors and markets where foreign government technical assistance programs are displacing U.S. exports and recommend actions to address those sectors and markets whose foreign governments' use of technical assistance is a key factor in determining market share distribution.

Increase our Focus on Standards-Related Issues

While we have long recognized the importance of standards in defining future market share for our products, it is evident, particularly in the emerging economies, that the U.S. must develop a more proactive, strategic standards policy to ensure that U.S. companies are not unfairly precluded from competing for contracts in our most promising markets. We will continue to develop the strategy framework begun last year, focusing on implementation of the World Trade Organization (WTO) and the recent Mutual Recognition Agreement (MRA) with the EU; increasing our coordination with the private sector and within the U.S. government to bring to bear more influence in international standards fora; and strengthening our technical infrastructure and technical assistance programs. We are also developing an Asia-Pacific Economic Cooperation (APEC) Framework Agreement for mutual recognition of testing and evaluation reports for key traded industry sectors, like information technology and telecommunications.

Develop a Strategic, Regionally-Focused Advocacy Program

Frequently U.S. companies win projects with our help, but the outcome is often the result of a U.S. company request in the final stages of a contract tender. Our competitors, on the other hand, proactively ascertain project priorities as much as a year in advance and involve a full array of government agencies at the outset of a competition. We can and must match this effort. We will integrate a long-term perspective into our ongoing advocacy efforts, provide advocacy support at an earlier stage of project development, both through technical assistance and at our overseas posts, and seek to offer a more comprehensive and intensive package of U.S. government services in priority contract competitions. We will also examine the role of advocacy in private sector projects, particularly in economies like Latin America, where an increasing number of procurements will be conducted by privatized companies in major sectors like aerospace, telecommunications and energy -- where there is a fine line between public and private sector participation.

Establish A More Integrated Approach for Trade Missions

Trade missions play a key role in our export promotion strategy. Not only do such missions lead to direct export sales for U.S. companies through business-to-business contacts and project advocacy, but they provide an opportunity to raise and address key concerns affecting U.S. companies' ability to do business in the market. The TPCC will work to further consolidate and coordinate our trade missions and improve interagency involvement at the outset of Secretarial-led missions to ensure that the full array of TPCC resources are brought to bear on behalf of U.S. companies in each market.

Develop A Strategic Plan for Small Business

Small business will continue to be a TPCC priority. In the coming months, the TPCC will take a hard look at existing USG programs for small businesses -- many of which are described in this year's report -- and make recommendations on future directions.

We will undertake an interagency review of the Export Assistance Center network to evaluate its effectiveness and recommend how we can improve it. The Export Assistance Center network is now fully operational and at this juncture, we should evaluate how we are meeting the needs of the local business community to increase export sales. In particular, we will evaluate our partnerships with state and local multiplier organizations. We will also enhance and regularize training for the Export Assistance Center and agency staff to increase their familiarity with all TPCC agency programs, particularly in the trade finance area.

Enhance our Anti-bribery Efforts

We will complete the OECD negotiations on criminalization by December 1997, and continue to push for follow-through implementing legislation, both on criminalization and tax deductibility. We also plan to establish at the Department of Commerce an information system for reporting possible instances of bribery of foreign officials by non-U.S. companies. The system will be a centralized, easily accessible location for reporting information on a confidential basis. The information collected will assist the U.S. government in assessing the nature and extent of foreign bribery and in formulating effective anti-bribery initiatives. It could also be used as a database on foreign implementation of a future OECD convention which could help support USG follow-up and monitoring efforts.

Deepen our Big Emerging Markets Initiative

As I mentioned previously, we need to address the fact that we are losing market share in some of the most important markets of the future. To the extent we lose market share because of distortion, we should work to overcome these hurdles.

After an assessment of how our performance could be improved in these markets, and where budget and FTE resources allow, the TPCC agencies will target more of our resources toward the Big Emerging Markets. We will continue to strengthen our existing Commercial Centers in Sao Paulo, Brazil, Shanghai, China and Jakarta, Indonesia and assess the feasibility of opening a new Center in Johannesburg, South Africa with the ultimate goal of establishing Commercial Centers in each BEM. These Centers provide visiting American companies with a ready-made base for conducting business, co-locating the Commercial Service with a strategic mix of partners -- including the Foreign Agricultural Service, the States of California, Washington, Michigan, Maryland, the Council of Great Lakes Governors, and other private sector entities.

Toward a U.S. Policy on Offsets

During the coming year the TPCC will serve as a vehicle to develop further consensus on this complex issue, which touches on an array of industry and private sector interests. We will continue to take action to reduce government-mandated offsets through multilateral agreements and bilateral discussions.

Meet Demand for Trade Finance

Demand for U.S. exports is up and demand for Ex-Im Bank's programs is increasing at an unanticipated rate. In FY 1997, the Bank deferred approximately $300 million in transactions to FY 1998, leaving as little as 50 percent in program resources to deal with an exporter demand which is expected to increase. The TPCC will support Ex-Im Bank in its work with the Office of Management and Budget, the Congress and the exporting community to develop options to address increased exporter demand. We are mindful of the need to keep U.S. exporters competitive and to offer financing only when private sector financing is not available.

Conclusion

As chairman of a "new" TPCC, I am dedicated to ensuring that this interagency group -- truly a bipartisan product jointly parented by the Administration and Congress -- fulfills its potential as a strategic tool for establishing the direction of our trade promotion and finance programs in the coming years.

I will make sure we continue to look for ways to leverage resources, improve services and increase coordination among the TPCC agencies. I want the TPCC to develop government-wide strategies to respond to the most important commercial policy issues our exporters face. I want it to strengthen its role as a coordinative tool in the budget process, so that we can follow through -- in terms of resource allocations -- on the commercial policy objectives we set out in our Report to Congress. I want the TPCC to be a vehicle for a long-term strategy which will improve our future standard of living. Only in this way can the TPCC agencies guarantee U.S. firms and workers the unequivocal support of their government as they participate in the competitive global marketplace.

1. Manufactured goods accounted for $525 billion, services $237 billion, agricultural products $61 billion and other goods $26 billion.